

VZCZCXYZ6178
RR RUEHWEB

DE RUEHMS #1368/01 2611140
ZNR UUUUU ZZH
R 181140Z SEP 06
FM AMEMBASSY MUSCAT
TO RUEHC/SECSTATE WASHDC 7146
INFO RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS MUSCAT 001368

SIPDIS

SENSITIVE
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STATE FOR NEA/ARP
COMMERCE FOR ITA COBERG

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [MU](#)
SUBJECT: ECONOMIC CHALLENGES, GCC INTEGRATION HIGHLIGHT
ROUNDTABLE DISCUSSION

SUMMARY

1. (SBU) Top government officials and business representatives discussed efforts to both diversify Oman's economy and forge stronger regional integration with its GCC neighbors during an Economist-sponsored roundtable. The closed-door meeting provided the private sector a rare opportunity to engage ministers in a public forum. End Summary.

DIVERSIFICATION KEY

2. (SBU) In a September 10 address to Muscat's business elite at the Economist-sponsored First Business Roundtable with the Government of Oman, Commerce and Industry Minister Maqbul bin Ali Sultan identified sustainable growth and maintenance of living standards as the government's top priorities. Maqbul stated that in an environment of strong growth, low inflation, and ample domestic liquidity, the government must promote continued development through human resources initiatives, private sector investment, and economic diversification. Regarding the latter, Maqbul highlighted oil's continued commanding presence in Oman's economy, which currently accounts for 40% of Oman's GDP and 80% of its export earnings. For this reason, Maqbul stressed the importance of government efforts to use its natural resources to develop gas-based downstream industries. While further efforts to develop the tourism sector have been successful, Maqbul acknowledged that the promotion of other industries, such as fisheries, have not.

3. (SBU) Taking advantage of the open forum, U.S. Awasthi, chairman of the Oman-India Fertilizer Company, cautioned the Minister that the government should not establish new environmental laws that go beyond international standards. Maqbul responded that the government would abide by its environmental commitments under the U.S.-Oman Free Trade Agreement (FTA), which contained "a very big environmental chapter." On labor, National Bank of Oman CEO Andrew Duff expressed his concern over Oman's labor rigidities, which he believed thwarted businesses from releasing non-performing Omanis. After a round of applause from the audience, Maqbul reaffirmed his commitment to the Omanization program, but expressed his openness to improving worker productivity.

MONETARY UNION BY 2010?

14. (SBU) Central Bank Executive President Hamoud Sangour al-Zadjali characterized Oman's banking sector as stable, profitable, and well-capitalized. He stressed that the Central Bank continues to remain conservative in its lending regulations and would work with the commercial sector on implementing Basel II requirements. Zadjali said that Oman has no plans to open up the sector to Islamic banking interests, noting that, "At the end of the day, Islamic banks face the same expenses for borrowing as other financial services."

15. (SBU) Zadjali predicted that banks would consolidate as the GCC moved toward a single economy. He stated that forming a GCC monetary union by 2010 would be difficult, noting that consensus was still needed on budget deficit and public debt ceilings, as well as on benchmarks for foreign reserves, inflation, and interest rates. Zadjali also noted that the GCC governments were still debating the merits of forming a monetary council, as opposed to a Gulf Central Bank along the lines of a European Central Bank.

RARE EVENT

16. (SBU) Comment. The event provided a rare opportunity for the private sector to pose unscripted questions to several cabinet-rank ministers, including the Minister of Transport and Communications and the Minister of Oil and Gas. One private sector contact appreciated the openness of the ministers, one of which questioned the government's decision to create a third LNG train on the basis of overly-optimistic information. Another key government contact told Econoff that he appreciated the serious exchanges of dialogue that occurred in the opening sessions, though he expressed

disappointment that the roundtable lost its sharpness as the day slowly turned into an exchange of congratulatory speeches.
GRAPPO